

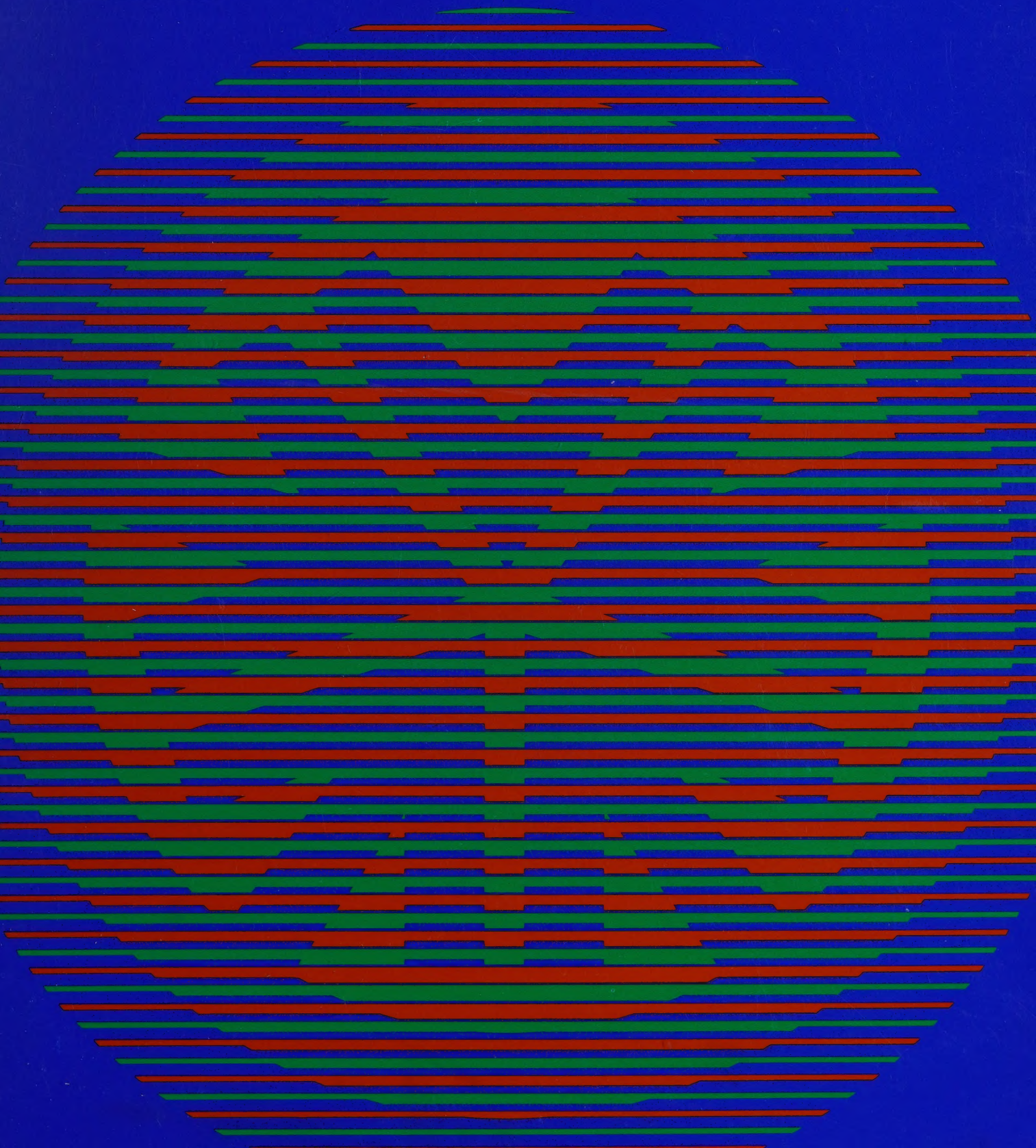


1974

Annual  
Report

Venturetek International  
Limited

AR43





**Management**

Jeremy N. Kendall\*  
*President*

Donald E. Loeb\*  
*Executive Vice President  
and Secretary*

Donald W. S. Rutherford\*  
*Vice President, Finance  
and Treasurer*

Gary L. Strickler  
*Director of Marketing*

**Directors**

Donald C. Morrison\*  
*Chairman,  
and Executive Vice President  
Canada Development  
Corporation*

F. Martin Crispo  
*Vice President and  
Treasurer for Canada  
National Life Assurance  
Company of Canada*

David M. Dunlap  
*President,  
Simcoe Beverages Inc.  
and Director,  
Hollinger Mines Limited*

H. Anthony Hampson  
*President and Chief  
Executive Officer  
Canada Development  
Corporation*

Jeremy N. Kendall  
*President*

Donald E. Loeb  
*Executive Vice President  
and Secretary*

George A. Minden  
*President  
Windsor Arms Hotel Limited*

Professor Robert E. M. Nourse  
*Associate Professor and  
Chairman of the  
MBA Programme  
School of Business  
Administration  
University of Western Ontario*

Peter K. Powell  
*Vice President  
Canada Development  
Corporation*

**Bankers**

The Royal Bank of Canada  
20 King Street West  
Toronto, Ontario

**Auditors**

Coopers & Lybrand  
145 King Street West  
Toronto, Ontario

**Legal Counsel**

Day, Wilson, Campbell  
250 University Avenue  
Toronto, Ontario

**Annual Meeting**

July 23, 1975 4:00 p.m.  
Upper Canada Room  
Royal York Hotel

**Venturetek International  
Limited**

47 Colborne Street, Suite 404  
Toronto, Ontario M5E 1E3





## Financial Highlights

|   | 1970      | 1971        | 1972         | 1973         | 1974                |
|---|-----------|-------------|--------------|--------------|---------------------|
| <b>Sales</b>                                | \$ 21,000 | \$5,556,000 | \$10,493,000 | \$18,347,000 | <b>\$36,646,000</b> |
| <b>Earnings (loss)<br/>from Operations*</b> | (329,000) | (904,000)   | (1,224,000)  | 328,000      | <b>2,280,000</b>    |
| <b>Net Earnings (loss)</b>                  | (324,000) | (846,000)   | (1,858,000)  | 1,033,000    | <b>1,584,000</b>    |
| <b>Invested Capital</b>                     | 1,297,000 | 2,566,000   | 8,635,000    | 9,598,000    | <b>11,524,000</b>   |
| <b>Earnings (loss)<br/>per Common Share</b> | (0.84)    | (1.43)      | (1.45)       | 0.76         | <b>1.07</b>         |
| <b>Number of Employees</b>                  | 23        | 493         | 868          | 1,446        | <b>2,570</b>        |

\* Before Income Tax, Minority Interest and Share of Loss of Effectively Controlled Companies

## Corporate Philosophy

Venturetek is in business to provide venture capital for new ideas with the objective of achieving long-term capital gains.

The investment policy of the Company is to take controlling equity position in companies:

- which may be at the start-up, development or expansion stage;
- whose projected growth in earnings per share is extraordinary over the long term;
- which have either unique products or are uniquely positioned in the marketplace;
- with open-ended market potential which usually implies international markets;
- which are based in North America where monitoring can be most easily accomplished and communications are simplified.

It is company policy to maintain a balance of investments between conceptual stage and maturity and to provide significant management input to each company, particularly in the early stages.



## Report to the Shareholders

The year 1974 was a year of excellent growth for Venturetek and its group of companies.

Sales for the year increased to \$36.6 million, a gain of approximately 100% over the period reported December 31, 1973. Net earnings for 1974 increased 53% to \$1,584,148 compared to \$1,032,964 for the previous period. Net earnings per share for 1974 were \$1.07 as compared to \$0.76 for the previous period.

Earnings for 1973, originally reported at \$202,390, have been restated to reflect the recent recommendations of the Canadian Institute of Chartered Accountants. The rate and complexity of these changes issued by the Institute make it difficult for management to provide meaningful and consistent reporting to shareholders.

Perhaps the most significant measurement of the progress of the Venturetek group is the growth in earnings from operations before income tax, which rose six-fold from \$328,000 in the period ending December 31, 1973 to \$2,280,000 for the year ending December 31, 1974.

This dramatic growth in earnings performance is also reflected in a corresponding increase in cash flow and improvement in working capital.

Total assets of the Company increased 85% from \$22.3 million in 1973 to \$41.2 million in 1974. Book value per share improved 34% from \$5.72 to \$7.65 per share.

In spite of the uncertain economic environment, Venturetek is continuing to prosper. With the exception of Conat Industries, which has been badly affected by the collapse of the new housing market, Venturetek's companies have been reasonably insulated from the effects of the recession by virtue of their unique products which compete in major markets of a fundamental nature. These markets cover approximately 20 countries and over 50% of sales occurred outside of Canada.

The unaudited earnings before tax for the first five months of 1975 were approximately \$800,000 which is double the results of last year at this time. Earnings for the complete year are expected to exceed 1974's results.

### Review of Investments

#### Conat Industries Limited

Conat's primary business is in residential packaged heating and cooling systems. While the company still maintains its unique technology in blue flame oil combustion, it has had difficulty in arranging for

government financial assistance for further research and development and, therefore, has delayed development until other funding is available.

Conat's results were very disappointing in 1974. The company began the year with much of its production capacity specified for current construction projects. In response to these planned projects, a substantial inventory of Envirotrons was built in the first half for delivery from July through to November. However, downturn of the housing industry forced the cancellation or delay of most of these projects and left the company with a substantial inventory. Management reacted by eliminating all but vital expenditures and reducing staff by 70%. A holding pattern was established with the result that positive cash flow and small profits were being generated on a monthly basis at the end of the year.

Sales for the 1974 year were \$400,000, up from \$66,000 in 1973, while losses were \$200,000 for the year, a small improvement over the \$263,000 loss in 1973.

Based on a forecast that assumes housing starts will not increase over 1974, management expects that sales will more than double in 1975 and that break-even operations or a small profit will be achieved.

Through the first four months of 1975, the company was ahead, both in sales and earnings of its modest budget, and cautious optimism exists for the final two-thirds of the year. The substantial backlog of projects carried over from 1974 and the political pressure to stimulate the industry could improve conditions but the impact will probably not be felt until the final quarter of 1975. The company has recently quoted several major international projects which could add to 1975 results.

#### Gestalt International Limited

Gestalt International continued to grow quickly in 1974 both as a result of internal growth and corporate acquisitions. Sales increased from \$509,000 in 1974 to \$7,405,000, an increase of nearly fifteen times, largely as a result of these acquisitions. Net income was just above break-even, representing a \$372,000 improvement over last year's loss. The company expects to achieve a good profit in 1975.

Backlog at the end of 1974 was at record levels in all divisions of the company and the industry is generally considered to be in a healthy state.

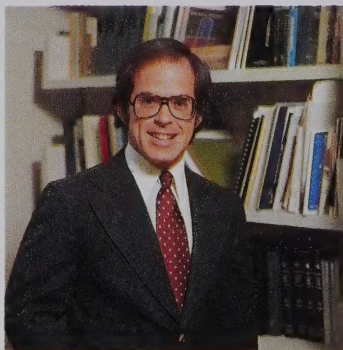
#### Mapping and Geophysical Divisions

The Mapping and Geophysical Divisions achieved a record profit in 1974 and all companies operated at or near capacity. In early 1974, Gestalt acquired a second mapping company, Survair Ltd., with operations in Ottawa and

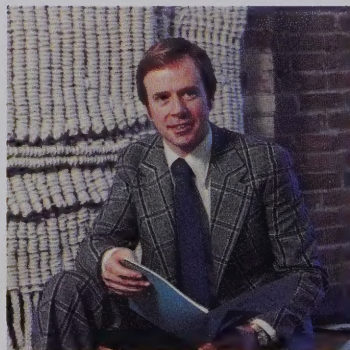
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Director of Marketing





Trinidad. Subsequent to the acquisition, Survair's mapping and geophysical business was integrated with Northway's, resulting in expanded capacity and improved coordination of activities. Survair's aircraft maintenance, modification and charter business remained in the Ottawa facility. Northway's interest in a mapping company in Venezuela and Survair's Trinidad operations were both sold during the year.

Early in 1975, Gestalt reached an agreement to acquire the shares of Machair Survey Limited. Machair is a small, sophisticated air survey company, based in Calgary, and will give Gestalt an entry into the growing Alberta market.

#### *Aircraft Maintenance and Charter Division*

At the end of 1974, Gestalt agreed to acquire the shares of Cross Canada Flights Limited of Ottawa, a company engaged in aircraft maintenance, modifications, charter and flight training. The operations of Cross Canada Flights have been merged into the Survair facility and the Cross Canada hangar has been leased to the Department of Public Works on a satisfactory basis. The merged companies are operating profitably and are expanding their charter operations particularly in the Far North as well as specializing in complex modifications

to airplanes including the installation of cameras, electronics equipment and geophysical systems.

#### *Systems Division*

In September 1974, Gestalt agreed to form a joint venture to operate a Gestalt photo-mapper with Mitsui and Asia Air Survey in Japan. This joint venture is one of the first such agreements concluded in Japan by a Canadian company.

During the year, the management of Gestalt decided to permit the outright sale of GPM's to those areas of the world where the company could not participate in the complete mapping process. At the end of 1974, agreement was reached with the Government of Algeria for the first complete sale of a GPM system. A number of such sales are under negotiation at the moment.

#### **Hermes Electronics Limited**

The company maintained a strong growth trend in 1974 with sales of \$11,916,000, an increase of 19.9% over 1973. Current order backlog is over \$30,000,000, an improvement of 115% compared to a year ago, and covers production contracts extending through 1976.

During the year, it became evident that cost overruns on two large communications projects would not be recovered through hardware sales in 1974 and the deferred costs

associated with the projects were written off; however, it is expected that major new hardware contracts will be realized for communications products in 1975, and that future earnings will recover the write-offs of deferred costs in the past two years. Costs incurred in an unsuccessful bid for a major avionics contract in the United States were also fully written off in 1974.

Largely as a result of the project write-offs, net earnings for the year were disappointing and showed no change from 1973 restated earnings of \$168,000.

#### *Sonobuoys*

Throughout 1974, the company continued development of several new sonobuoy types which will generate increased sales volume over the next five to ten years. One such development resulted in a \$3.5 million order for an improved bathy-thermography sonobuoy.

#### *Databuoys*

After three years of product research, Hermes has recently been awarded the first phase of a three-phase programme to design and produce a major ocean monitoring system for the Federal Government. This

system will include a gridwork of permanently-moored buoys employing Hermes' unique capability in buoy design, from which extensive data on the seas will be transmitted to land-based stations for processing. This system is consistent with the objectives of the Law-of-the-Sea Conference which envisages the necessity to monitor the 200-mile offshore territory for all coastal nations.

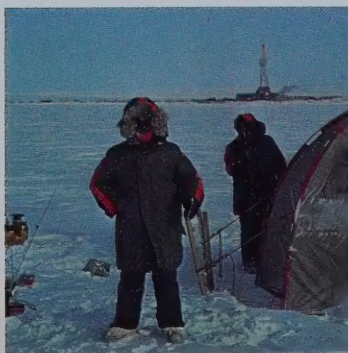
Substantial international sales should result from this programme.

#### *Subsidiary Companies*

Production engineering of the video-tape cleaners and evaluators was completed by mid-year and a number of units were shipped. Successful test results on these products were reported by Columbia Broadcasting System's engineers and their purchase of several evaluators has had a positive influence on sales early in 1975 to NBC, ABC and other broadcasting networks.

The company, through its subsidiary, Devtek Limited, created a partnership, Metropolitan Refreshments, in which a PoP Shoppe franchise was established for the Maritime provinces. The first plant was opened in Dartmouth in August and, after a record opening-day performance, produced sales and profits well in excess of those anticipated through year end. A second plant will be opened in Moncton by July 1975 and a number of sales depots will be added for each plant.

Exploration around the world with McPhar instruments



Annual inspection of over 500 million bottles occurs at The PoP Shoppes.





**PoP Shoppes International Inc.** PoP Shoppes achieved record sales and earnings for the eleven months ending December 31, 1974. The company changed its year end to correspond to Venturetek's calendar year end. Sales increased 76% to \$8.8 million and net income was up 31% to \$845,000. Total retail sales of all PoP Shoppes, including the results of licensees, exceeded \$18 million for the period. Earnings for 1975 are well ahead of 1974 and the company expects an excellent year.

In keeping with the entrepreneurial spirit of The PoP Shoppes people, the management of PoP Shoppes has been decentralized to allow greater initiative at the local level, particularly in the areas of advertising and promotion. Canadian operations are now administered from a new office in London, Ontario, and U.S. operations have been transferred to Denver, Colorado. PoP Shoppes International, based in Toronto, continues to be responsible for licensee expansion and to establish policy for the group.

During 1974, PoP Shoppes repurchased the licensed factories in Ottawa, Winnipeg, Denver, Portland and Ogden which now give the company direct ownership of fourteen plants in North America.

The company has initiated discussions with potential licensees in Australia and Japan and expects to have at least one factory in operation before the end of the year.

1974 has been a year of fluctuating prices for most commodities. Sugar prices increased five times and then fell back almost to previous levels; plastic, which is used in the manufacture of The PoP Shoppe cases, is now off allocation and in reasonable supply. The ability of Pop Shoppes to reflect cost changes immediately throughout their retail operations was an important factor in compensating for these price fluctuations. The company also was able to modify the effects of the price increases of sugar by the introduction of sugar-free drinks in the United States and additional calorie-reduced flavours in Canada.

During the year, the company financed its expansion through the issue of \$500,000 of common shares on a private placement basis and by raising \$2 million of term debt from RoyNat of which \$500,000 is convertible into common shares. The RoyNat financing is believed to be the largest of its' type ever undertaken by RoyNat and indicates the growing strength of the PoP Shoppes organization.

There are now over 1300 people working in PoP Shoppes organization and in excess of one million customers in Canada using PoP Shoppes products on a regular basis.

### **The Ventek Group**

The Ventek Group completed its first full year of profitable operations after spending four years developing the products, facilities, organization and markets required for success in the computer business. Sales for the year ended December 31, 1974 exceeded \$8 million, up from \$2.8 million in 1973, an increase of 194%. Earnings were \$810,000 in 1974, which represents an improvement of over \$1 million over the loss of \$204,804 in the previous year.

The Group's rapid growth was accomplished in spite of the difficult economic climate existing in Britain. The three-day week reduced output in the first quarter of 1974 and full production rates were not reached until the third quarter. In the U.S., the recession contributed to the deferral of the major orders anticipated by Interail. In 1975, management is maintaining contact with its major prospects until the climate for capital equipment purchases in the railroad industry improves.

### **Product Development**

Ventek established a product development facility at Westlake Village near Los Angeles and its first prototypes are operating. These products are designed to complement the existing product line and open up new international markets for Ventek beyond Britain and the U.S.A. Over 40 engineers and skilled technicians are employed at Westlake.

### **Software Development**

A new software development facility was established in Britain to develop software packages. A team of ten software designers and experienced programmers has been assembled, giving Ventek a specialized capability in this critical area of computer expertise.

### **Market Development**

A significantly expanded marketing programme in Britain, including increased sales coverage in London and the opening of new sales offices in other major cities, resulted in orders from several major new customers.

Backlog in the U.K. at year end was over \$5 million and sales prospects for 1975 continue to be excellent in spite of the economic situation in Britain. Over 600 Ventek systems are now installed at customer sites throughout the United Kingdom.

### **Outlook - 1975**

The major challenges in 1975 are to maintain profitable growth in the U.K., to successfully introduce Ventek's new proprietary products, and to establish U.S. manufacturing and marketing operations on a modest scale.

Pre-production model of Intelligent VDU System "9004".



Gestalt engineer tests the new GPM-2, contoured orthophoto system.



McPhar's "yellow bird" is used in electromagnetic surveys.





## New Investments

### McPhar Instrument Corporation

Apart from a number of acquisitions and new ventures initiated by the existing Venturetek group, the major new investment undertaken by Venturetek has been the formation of McPhar Instrument Corporation. Venturetek combined with an experienced management group to purchase the assets of McPhar Geophysics Limited, which has been manufacturing geophysical instruments and operating a ground survey business around the world. The transaction was completed in early 1975. The new company is continuing to manufacture the McPhar instruments and is expanding the product line, particularly in the areas of airborne systems and radiometric instrumentation used in the search for uranium. In the longer term, the company intends to diversify into other forms of instrumentation for oceans and environment applications.

McPhar Instrument Corporation has encouraged the establishment of independent ground survey businesses which will purchase and lease instruments from McPhar and provide field services for the mining and petroleum industries. Such organizations have been established in Canada, the United States, Australia and the Philippines.

Venturetek has invested \$300,000 for a 51% interest in McPhar Instrument Corpora-

tion and expects that the new company will be profitable in the current year.

### New Shareholders

In November 1974, we were pleased to report that The Royal Bank of Canada had purchased a minority investment in Venturetek. Over the last five years, The Royal has become quite familiar with each of Venturetek's investments since we have had a policy of concentrating our banking with a single bank.

The Royal Bank has been enormously helpful to Venturetek since its inception and we consider their investment to be very significant.

During the past few months, we have been seeking an investment from the European banking community which could provide commercial assistance to the Venturetek group of companies in their rapid expansion of sales into Europe. We hope to be able to announce another new shareholder in the next few weeks.

### Directors and Officers

We regret that Mr. R. A. Wisener resigned as Chairman and Director of Venturetek at the end of 1974 to concentrate his full energies into his own business. Mr. Wisener's contribution to Venturetek through its formative years is recognized and appreciated by the Board and

Management and we will miss his enthusiastic participation. Mr. D. C. Morrison was subsequently elected Chairman of the Board.

Mr. A. Waters, who represented the interest of the Canada Development Corporation, also resigned in 1974 and was replaced by Mr. P. K. Powell, Vice President of the CDC. Early in 1975, Mr. R. E. M. Nourse, Associate Professor and Chairman of the MBA Programme at the School of Business Administration, University of Western Ontario, joined the Board of Venturetek. We take this opportunity to thank Mr. Waters for his guidance and to welcome Messrs. Powell and Nourse to the Board.

Messrs. M. V. Holt and B. M. Westwood, who were part of the founding group of Venturetek, resigned from Venturetek's Board in 1974 in order to focus their attention on Ventek and PoP Shoppes respectively. M. V. Holt has been directly responsible for the creation of the Ventek Group as well as providing the technical evaluation of many of the ideas presented to Venturetek. B. M. Westwood has guided the dramatic growth of PoP Shoppes from a locally-based operation into a national company with an expanding international business. Fortunately, the wide experience and entrepreneurial spirit of both Mr. Holt and Mr. Westwood will still be available to Venturetek through their companies. Following these resignations,

the Board has been reduced to nine persons.

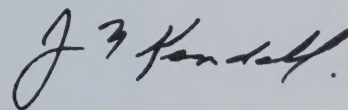
### Outlook

Venturetek is now able to increase its activity in the search for new ventures as the existing companies are beginning to mature and have a sufficient base of management to free Venturetek personnel to concentrate on the time-consuming start-up phase of new investments.

We continue to review from ten to fifteen new investment proposals per month. The depressed economic times have tended to decrease the mobility of many entrepreneurs who are reluctant to leave their employment unless their ideas are particularly good. As a result, the quality of proposals has improved while, at the same time, reduced liquidity has resulted in a decrease of available venture capital. This situation has created good opportunities for the high-risk investor.

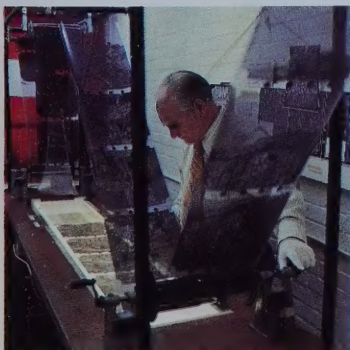
We expect to make a number of new investments in the current year and anticipate continuing growth in our existing companies.

Management would like to thank each member of the Venturetek group for their individual contribution towards achieving this year's results.



Jeremy N. Kendall  
President

Negatives used to produce photo-maps in Northway's photo lab.



Snow storms rarely deter The PoP Shoppe customers.





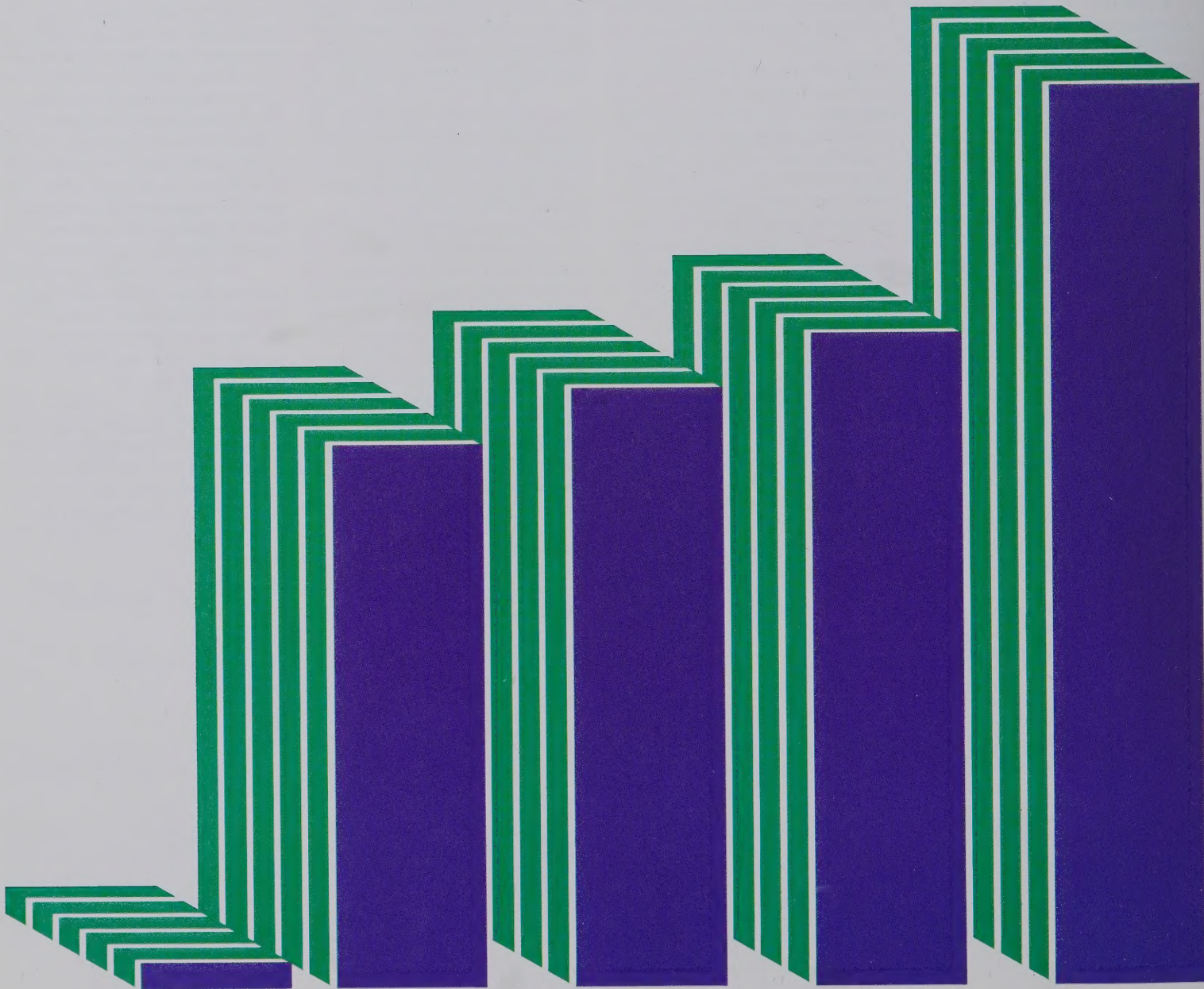
**Conat 1%**

**Gestalt 20%**

**Ventek 22%**

**PoP Shoppes 24%**

**Hermes 33%**





| Prime Industry:   | Packaged Heating/Cooling   | Mapping and Surveying   | Ocean Engineering   | Geophysical Instrumentation   | Soft Drinks   | Computer Systems  |
|---|--|---|---|---|---|---|
| Products and Services:                                    | Environment Control Systems<br>"Envirotron"<br><br>Blue Flame Oil Technology | Gestalt Orthophoto Mapper<br>"GPM" Series 1 and 2<br><br>Services:<br>• <i>Aerial Photography</i><br>• <i>Airborne Geophysics</i><br>• <i>Photogrammetry</i><br>• <i>Natural Resource Studies</i><br>• <i>Aircraft Charter, Maintenance and Management</i><br>• <i>Flight Training</i>                                  | Sonobuoys<br><br>Ocean Mooring Systems<br><br>H.F. Antennas<br><br>Ionospheric Sounding Equipment<br><br>Video Tape Cleaners and Evaluators | Airborne and Ground Systems<br>• <i>Gamma-ray Spectrometer Systems</i><br>• <i>Magnetometer (E.M.) Systems</i><br>• <i>Electromagnetic Systems</i><br>• <i>Induced Polarization Systems</i> | Soft drinks by the case direct from a retail factory store<br><br>19 regular flavours<br><br>11 calorie-reduced flavours            | Computer Terminals<br>• "Datapoint 1100, 2200 and 5500"<br>• "Interail 9000"<br>• "Ventek 9004"<br><br>Small Business Systems<br>• "Datapoint 2200, 5500"<br><br>Computer Peripherals |
| VIL % Ownership:  | 77.8%  | 50.7%   | 73%   | 51%   | 70.5%   | 90.1%   |
| Company Name:   | Conat Industries Limited   | Gestalt International Limited   | Hermes Electronics Limited  | McPhar Instrument Corporation   | PoP Shoppes International Inc.  | Ventek Computer Systems Limited   |
| Major Subsidiaries:<br>(Wholly Owned)<br><br>(*Exception) | Envirotron Sales, Toronto Limited<br><br>Envirotron Sales, (Quebec) Limitee  | Northway Survey Corporation<br>• <i>Atlantic Air Survey Limited</i><br>• <i>Pacific Survey Corp.</i><br><br>Survair Limited<br><br>Cross Canada Flights Limited<br><br>Machair Surveys Limited<br>(as of June 30/75)<br><br>*50% Joint Ventures:<br><i>Geo-Gestalt</i><br><i>Plessey-Gestalt</i><br><i>Asia-Gestalt</i> | Advanced Transducer Systems Limited<br><br>Devtek Limited   |   | PoP Shoppes of Canada Limited<br>• <i>Kist Canada Limited</i><br><br>PoP Shoppes of America, Inc.<br>• <i>Heritage Flavor Corp.</i> | Ventek Limited<br><br>Ventek Computer Systems, Inc.<br><br>Interail Inc. (*70%)   |
| Office/Plant Locations:<br>Canada:                        | Rexdale, Ont.  | Vancouver, B.C.<br>Calgary, Alta.<br>Winnipeg, Man.<br>Toronto, Ont.<br>Ottawa, Ont.<br>Dartmouth, N.S.   | Dartmouth, N.S.<br>Ottawa, Ont.   | Don Mills, Ont.   | 20 factory stores<br>(3 under construction)<br><br>200 depot stores   | Toronto, Ont.   |
| U.S.:   |  | Long Beach, Cal.  | Washington, D.C.  |   | 10 factory stores<br>(3 under construction)<br><br>100 depot stores   | Los Angeles, Cal.<br>San Francisco, Cal.  |
| Other:  |  | Galway, Ireland<br>Tokyo, Japan   |   |   |   | London, Eng.<br>9 U.K. Sales and Service Centres  |



# Conat Industries Limited

Conat's primary business is in the manufacture and sale of a residential packaged heating and cooling system known as the Envirotron. The patented Envirotron system offers the homeowner heating, air conditioning, humidity control and electrostatic air cleaning in one compact central unit. This unique Canadian invention has wide application in quality housing, condominiums, prefabricated homes and in commercial applications such as retail stores, computer rooms and laboratories. The compact nature of the Envirotron plus the ease of installation makes it particularly suitable for shipment with prefabricated homes and other factory-built units.

The electrically-powered system takes up about one-half the space required for gas furnaces, and about one-quarter that required for oil furnaces.

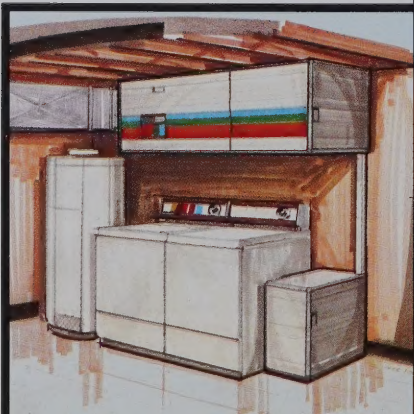
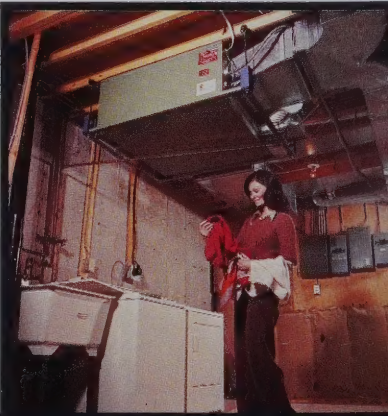
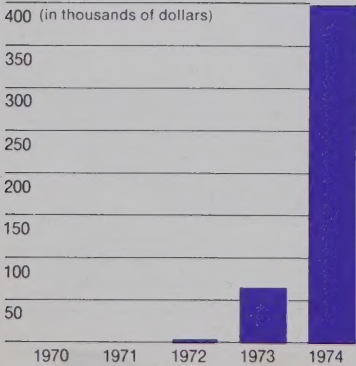
The company has also developed Envirotron Mk I, a system which permits the initial purchase by homeowners of the electric forced-air furnace, and subsequent additions, unit by unit, of the air conditioner, humidity controller and electrostatic air cleaner. The MK I has met with enthusiastic acceptance by builders of homes for modest-income-bracket families.

Conat has recently received approval for a \$70,000 project under the Industrial Design Assistance Programme. This project is 50% funded by the Federal Government and is being undertaken to improve the design of the Envirotron to provide a more flexible, modular product and a subsequent reduction in manufacturing costs. The Envirotron is distributed nationally through Westburne Industrial Enterprises Limited. The company also has established approximately eighteen dealers through which the Envirotron can be sold. These dealerships are fully qualified to service and install Envirotrons. The company

is also prepared to enter into installation and service contracts with builders for major housing projects. In this way, the final homeowner can be guaranteed consistent service by qualified personnel.

A number of product opportunities that utilize the company's plant facilities and knowledge of air heating, cleaning and cooling systems are under development. Conat is presently manufacturing a teaching system for technical schools and has shipped a number of these units to the United States in the past year. The company is also undertaking a market investigation to determine the need of the lumber industry for a new wood dryer. A prototype unit has been designed and field testing is under way.

Conat Sales





## McPhar Instrument Corporation

McPhar Instrument Corporation is in the business of developing, manufacturing and marketing geophysical instruments for use in resource exploration. The company is based in Toronto which is considered to be a world centre for mineral and petroleum exploration. Through its predecessor company, McPhar Geophysics Limited, the McPhar name and trademark has been established throughout the world. The company conducts its sales and leasing of equipment through its own sales force and through marketing arrangements which have been established with international representatives. McPhar has a growing backlog and sales have already been made to a number of international mining companies. While the mineral exploration industry in Canada is presently depressed largely as a result of governmental policies which are considered restrictive by the Canadian mining industry, the international demand for geophysical instruments is very strong. Governments are emphasizing the search for minerals, particularly as a

method of providing an off-setting cash flow to their drain of oil dollars. The one buoyant area of mineral exploration in Canada is in the search for uranium. Virtually all mineral economists forecast a major shortage of uranium, even in Canada, by the end of the Seventies and new resources must be discovered. McPhar's new line of radiometric equipment has been developed to assist in this search.

McPhar also provides equipment and systems under licensing arrangements to a limited number of field service groups. Pictured below is a team involved in the search for sources of geo-thermal energy employing the McPhar Induced Polarization System.

The company's instruments can be utilized from the air as a primary exploration tool for the location of base metal ore deposits, uranium deposits, iron ore and other metals. The systems can also be used on the ground for detailed follow-up of anomalies detected from the air. Finally, the instruments can be used in drill holes to provide additional information to the geologist or geophysicist on grade delineation or direction of ore deposits.

McPhar is in the midst of developing a number of new systems which will be ready for commercial sale in the latter part of this year. They include:

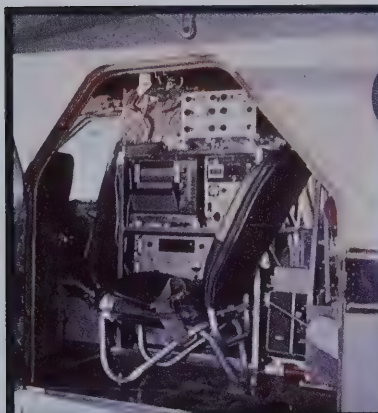
*The Quadrem System* – an airborne electromagnetic system used in the search for minerals from the air which will be significantly cheaper to operate than any other system available.

*The Geo-Probe System* – which has been used successfully in the prototype stage to determine the depth of permafrost in studies conducted in the Arctic for oil companies.

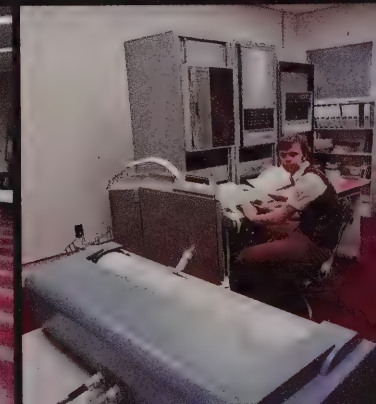
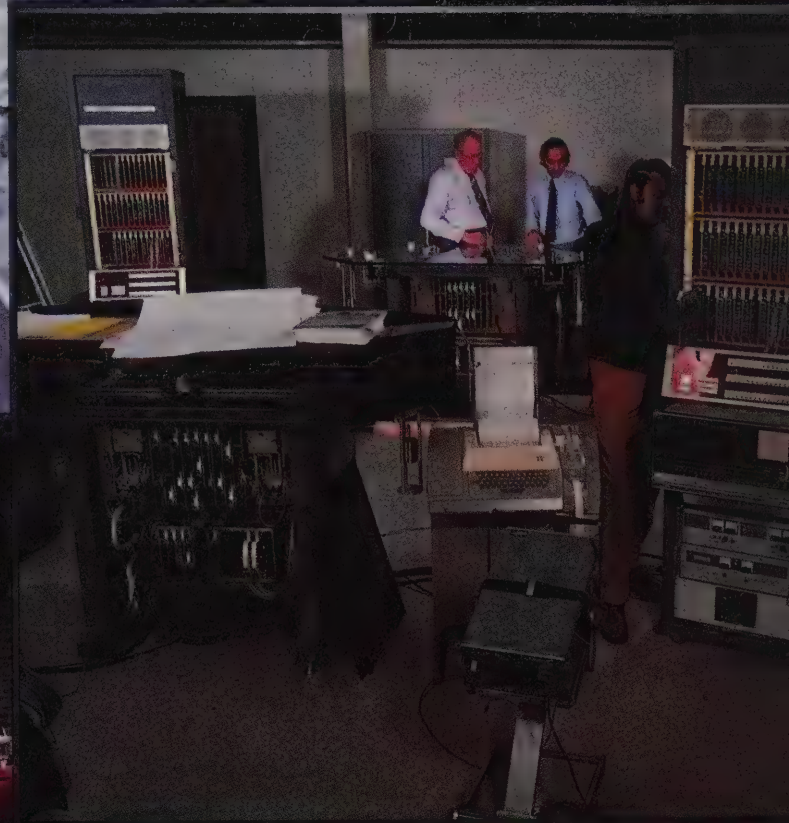
*The Drillhole EM System* – an electromagnetic method used in the search for minerals at drillhole depths which were previously unattainable.

There appear to be excellent opportunities to provide customers with a complete package of equipment and services employing the McPhar instruments and Northway's aircraft and personnel.

The company will be moving shortly into a new 12,000-square-foot facility in Toronto.









## Gestalt International Limited

The variety of activities photographed on the opposite page clearly indicate both the diversity of Gestalt's operations and the direction in which the company is evolving. The fundamental purpose of Gestalt still remains as the development of automated equipment for the mapping industry but the company has expanded into providing a total mapping service employing this automated technology.

Improved technology is also being applied in the capture and analysis of airborne geophysical data. Over the past year, the transition has been made from the traditional analogue and manual procedures to digital acquisition and automated data processing. Northway's automated geophysical capability is recognized as the most sophisticated in the industry. An example is the ability to process several types of gamma spectrometer data simultaneously into a single map form ready for use by geologists exploring for uranium in the field.

The energy crisis has not only stimulated the demand for further energy resources but has also placed emphasis on the need to plan carefully for the use and conservation of all resources. As a result, the mapping industry, which includes geophysics, is experiencing an unprecedented demand for its services. This demand is expected to escalate.

The company expects that the need for hydrological surveys will increase as a result of the Law-of-the-Sea Confer-

ence which will require mapping of the ocean floor and inventorying the resources contained within the new off-shore limits.

In 1974, Northway was successful in winning a \$3.2 million airborne geophysical contract in Brazil known as the Goias Project. This project will be carried out over the next three years and is sponsored by the Canadian International Development Agency and the Inter-American Development Bank. In addition to the Goias Project, Northway has operated in 1974 in Nigeria, Tanzania, Niger, San Salvador, Mali and Senegal, primarily on projects sponsored by CIDA.

In late 1974, Atlantic Air Surveys Limited, a subsidiary of Northway, concluded an agreement with the Land Registration and Information Service (a Maritimes mapping agency) to produce the bulk of their orthophoto requirements for the next ten years. Production will be accomplished by tripling the size of the plant facilities in Dartmouth and by transferring the Gestalt Canadian Service Centre from Vancouver to Dartmouth. This contract is one of the largest mapping contracts ever awarded in Canada and results from the availability of the advanced orthophoto technology.

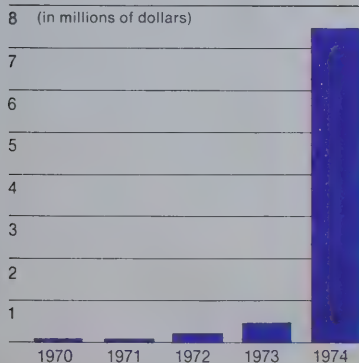
The major technical achievement of 1974 was the development of a GPM which will simultaneously produce an orthophoto, contoured orthophoto sheet and will record a digital terrain model on magnetic tape. This automatic process results in major cost savings and gives the user the flexibility of manipulating the data off-line. Digital terrain models which are in effect mathematical expressions of

the shape of the ground, can be used in civil engineering studies, in off-line production of contour lines to any desired interval, and for line-of-sight analysis in communications projects. Every country of significant geographic area is a potential customer for this process. The company has a number of funded research programmes under way to expand the technology further into new applications.

The demand for mapping and geophysical services is so great, and skilled mapping personnel are in such short supply, that automation in the mapping process is mandatory. The Gestalt process and other technical advances already described are, therefore, most timely.

The World Food Council based in Rome has been given a \$1 billion budget to assist the lesser-developed nations of the world to find self-sufficiency in their food requirements by increasing their own agricultural output. The initial inputs for any such programme require soil mapping, studies on existing land use, analysis of land capability and resolutions of cadastral or ownership problems. Historical mapping methods require a long lead time in order to produce these studies and potentially delay the effectiveness of the programme. Gestalt's technology significantly reduces this lead time, and the company expects to be able to contribute to the success of the World Food Council through the application of its new methods.

Gestalt Sales





## Hermes Electronics Limited

Hermes enjoys a unique position in oceanographic technology in Canada as the country's foremost commercial enterprise engaged in the design and manufacture of ocean engineering systems, HF communications and underwater sonar products.

The company's highly-technical product mix does not suffer from many of the locational disadvantages usually associated with an Atlantic-based industry: the high value/weight ratio of its products reduces the impact of freight rates, the company plant has easy access to world markets and most of Canada's ocean-related research, educational and government facilities are concentrated in the metropolitan Halifax area.

### Plant Expansion

Following five years of rapid volume growth, during which time only modest additions have been made to the company's physical resources, the company has begun construction of an additional manufacturing plant capable of meeting Hermes' needs for the next several years. The new plant of 120,000 square feet will be dedicated entirely to sonobuoy production. Completion of the new plant is expected by January 1976. Hermes will retain its present plant for production of communications equipment, databuoys, and the commercial product lines. The new plant and its equipment will cost a total of \$5.6 million. Plant and working capital financing has been arranged through a mortgage loan from Industrial Estates Limited, a DREE grant, and additional equity.

Hermes, employing over 700 people, is the fourth largest employer in Nova Scotia, and is an important factor in the economy of the province. The plant expansion will result in employment reaching 850 early in 1976, and 1,000 by 1977. While most of the people at Hermes are employed in production, there are 80 engineering personnel who are experts in designing equipment for anti-submarine warfare, adaptive high-frequency communications, high-frequency antennae and ocean mooring systems.

### Sonobuoys

Sonobuoys, which are used for submarine detection, have been sold in five countries and the company's engineers are presently developing four new types of sonobuoys. Hermes has installed the first computer-controlled test facility for sonobuoys and this together with its new plant will greatly increase its productive capacity and efficiency.

### Ionospheric Sounding Equipment

Hermes' ionospheric sounding equipment is used for the purpose of facilitating radio communication by providing information as to which frequencies are useable at any instant in time between the transmitting station and the receiving station.

### Aperiodic High-Frequency Loop Antenna Systems

Hermes also manufactures aperiodic high-frequency loop antenna systems which are now in use in seventeen countries. The recently-developed circular array, as well as the new developments in direction-finding arrays employing current loop antenna principles, will allow Hermes to further penetrate world markets for this sophisticated product.

### Ocean Mooring Systems

Hermes was the first company in the world to automatically moor two-stage buoy systems in up to 22,000 feet of water.

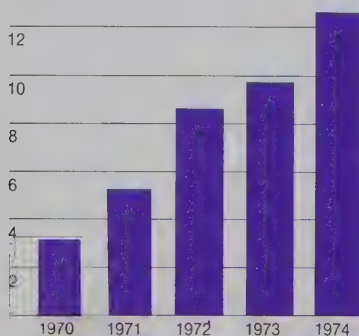
These systems are floating platforms upon which may be mounted a variety of sensors. The national databuoy contract which has recently been awarded to Hermes will make the company a world leader in this high-growth area.

These databuoys will collect weather information such as wind velocity, air temperature and barometric pressure in order to improve forecasting. Since most weather develops over water yet most forecasting is done from land-based stations, a great improvement in the accuracy of forecasting is expected. The system will also measure wave heights which is important to the offshore drilling industry with its continual flow of traffic between the mainland and the drilling rigs. Finally, the buoys will carry instruments to measure certain underwater parameters such as plankton counts, salinity, water temperature and currents and even levels of pollution. The results should help the Canadian fishing industry to become more efficient and will provide vital information to help control the ocean environment. All this data is relayed to land-based stations where it is analyzed and interpreted for specific uses.

The company's sales are projected to be approximately \$15 million in 1975 and should reach \$30 million in 1979. Hermes maintains sales offices in Washington and Ottawa and has a network of agents in 65 countries. With over 80% of its volume exported to eighteen different countries, and with its leading position in the ocean engineering industry, Hermes provides important benefits to Canada and is a logical vehicle through which new developments for the ocean can be conceived, developed and applied in one of the world's fastest-growing markets.

Hermes Sales

14 (in millions of dollars)













## PoP Shoppes International Inc.

The PoP Shoppe\* has developed a new approach to the bottling and merchandising of soft drinks.

Operations focus on a one-stop factory store . . . a combination of bottling plant, warehouse and retail store. Selling directly to the consumer by the case eliminates the high-cost distribution system normally associated with the soft drink industry and, as a result, the consumer can save up to 50% of his normal retail soft drink cost.

Selections from nineteen regular and eleven calorie-reduced flavours can be combined on a mix-or-match basis to fill a case. And, the consumer can complete his purchase with a good selection of complementary snack foods.

There are now 30 PoP Shoppes factories and over 300 depots in North America with a further 27 factories committed to open over the next 30 months. With the opening of a new PoP Shoppes factory in July of this year in St. John's, Newfoundland, PoP Shoppes will become a national company with factories in almost every large Canadian city from Newfoundland to Vancouver Island.

Clearly The Pop Shoppes concept is working as even the original factories established in 1969 in London and Kitchener had record results in 1974. The concept is being reinforced by environmentalists who are continuing to push for tougher legislation against the litter of non-

returnable bottles and cans. The current recession has created a more cost-conscious consumer who has welcomed the savings available at the local PoP Shoppe. Meanwhile, the soaring costs of labour, fuel, packaging and trucking equipment has raised the cost of distribution for the traditional bottlers and they have responded by closing many of their regional plants and nationalizing their operations into larger and more efficient production units.

The major growth of the company is now directed into the United States where ten factories are presently open in Arizona, California, Colorado, Oregon, Utah, Virginia, and Washington State. By the end of 1975, eight additional factory stores will be operating in the states of Maine, Massachusetts, Florida and Connecticut.

Factory stores may also supply nearby satellite depots, whose sole function is retailing. Depots provide greater market coverage and are usually located in areas which do not economically justify a factory store.

The company owns and operates fourteen of the factory stores and has licensed the other locations to people experienced in merchandising and in the production of soft drinks.

The company expects to continue its policy of being both licensor and licensee. Each factory location requires an investment of over \$600,000 and licensees must submit a fixed percentage of gross sales to PoP Shoppes, a portion of which is used for advertising which is created

for The PoP Shoppe Group by a leading national advertising agency. In addition, since strict quality control standards are rigorously maintained throughout the organization, licensees also purchase their flavour concentrate from subsidiaries Kist Canada Limited or Heritage Flavor Corporation in the United States.

An integral part of The PoP Shoppe marketing system is the exclusive use of returnable bottles and reuseable plastic cases. The \$3 deposit is the highest in the soft drink industry and stimulates an exceptionally high percentage of returns, which allows the cost of The PoP Shoppe products to be substantially lower than the national brands.

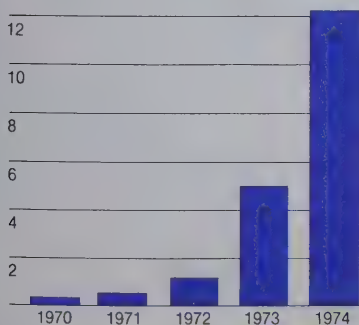
### Flavour Concentrates

In order to ensure consistently high product quality throughout the organization, PoP Shoppes acquired control of Kist in 1969 and has subsequently increased its position to 98%. Kist, which was established in 1929 in Stratford, Ontario, is now one of Canada's largest manufacturers of soft drink flavour concentrates. Many of the formulas which have been developed by Kist over the years are now being used in the United States under the quality control of Heritage Flavor Corporation. New laboratory facilities, staffed by food chemists, have been located in Colorado.

\*Registered Trademark of PoP used herein to describe PoP Shoppes of Canada Limited, Shoppes International Inc., and subsidiaries.

PoP Shoppes Sales

14 (in millions of dollars)





## The Ventek Group

Since its inception in November 1969, Ventek has become well established as an integrated computer systems company, supplying small-scale data processing and computer terminal systems to industry and government in the United Kingdom. In late 1971, Ventek was awarded exclusive distribution rights for the U.K. and Ireland for the Datapoint 2200 from TRW Electronics, Inc. The Datapoint 2200, a miniaturized, moderately-priced and versatile micro-computer system, has been a remarkably successful intelligent terminal gaining wide acceptance in many parts of the world.

The 2200 was introduced to the U.K. market in January 1972 and it achieved immediate success with many major corporations based in the U.K., such as: United Glass Limited, The Ministry of Defence, Nestle, and Harrod's. Repeat orders have been received from many customers, reflecting the company's policy of concentrating on major accounts with widely-dispersed operations which require remote data processing.

The winning of a \$10.5 million contract with the British Railways Board in 1973 was the "take-off" point for Ventek. The thirty-month contract required installation of more than 400 computer terminal

systems linking freightyards throughout the U.K. and required Ventek to build a maintenance and field engineering support organization. This field strength has allowed Ventek to bid on other major contracts which previously were available only to the very large companies. Ventek has since signed large contracts with customers such as: The Co-Operative Bank, Imperial Foods, The Contiental Illinois Bank, British Oxygen, The National Westminster Bank, The Thomas Tilling Group and The Ford Motor Company.

The Ventek system for British Rail accelerates and increases the efficiency in the handling of freight traffic throughout the vast British Rail system. When the installation is completed, information from all freightyards in the U.K. will be instantly available through a central computer. The dispatching and receiving yards will process information on the identity of the engine, its driver, its guard, and the number of freight cars and ultimate destination. Over 375 of the 458 systems are now installed and operating.

Ventek has recently established a research and development facility at Westlake Village in California, where new products for the communications, data processing and word processing markets are being developed. The word processing hardware is now fully tested and the first system has been shipped to England. The software development is pro-

ceeding well with programme coding already nearing completion. Six pre-production systems are being built and will be delivered in September, for initial customer testing and programme development. Plans for entry into the U.S. markets are now being finalized and the company expects to distribute through a major U.S. computer sales organization.

### **Interail Inc.**

Interail, which is a 70%-owned subsidiary of Ventek, was formed in California to market to railways in the United States a computer system for handling freight traffic similar to that installed at British Rail. Ventek's partner in the company is TOPS On-Line Services, Inc., a subsidiary of the Southern Pacific Railroad. The downturn in the railroad industry in the United States has delayed the introduction of the system.

The Ventek Group continues to operate profitably, with revenues and profits expected to increase in 1975. Total employment will also increase to 250 by the end of 1975. The company's head office has been transferred to California to coincide with the expected growth of U.S. operations.

Ventek Sales









**Assets**

|   | 1974<br>\$ | 1973<br>\$ |
|---|------------|------------|
| <b>Current Assets</b>   |            |            |
| Cash and short-term deposits  | 1,118,191  | —          |
| Accounts receivable   | 7,812,119  | 3,298,842  |
| Inventories (note 2)  | 11,102,193 | 6,353,093  |
| Investment in property and equipment held for resale — at cost  | —          | 1,131,066  |
| Prepaid expenses  | 408,570    | 279,365    |
| Due from shareholders   | 13,257     | 214,120    |
|   | 20,454,330 | 11,276,486 |
| <b>Investments</b> (note 1)   | 1,599,020  | 1,316,730  |
| <b>Fixed Assets</b> (less accumulated depreciation of<br>\$1,525,562, 1973 — \$746,743) (note 3)                        | 6,157,006  | 3,479,233  |
| <b>Other Assets</b> (note 4)  | 5,639,534  | 2,204,939  |
| <b>Excess of Cost of Shares of Subsidiary Companies<br/>Over Underlying Book Value at Dates of Acquisition</b> (note 1) | 7,400,030  | 4,036,286  |
|   | 41,249,920 | 22,313,674 |

Signed on Behalf of the Board

Donald C. Morrison    Director

Jeremy N. Kendall    Director



## Liabilities

|   | 1974<br>\$ | 1973<br>\$ |
|---|------------|------------|
| <b>Current Liabilities</b>                            |            |            |
| Bank indebtedness (note 5)                            | 6,235,053  | 4,036,258  |
| Accounts payable                                      | 9,499,047  | 4,429,304  |
| Due to shareholders and directors                     | 112,605    | —          |
| Income tax payable                                    | 72,500     | —          |
| Deferred income tax                                   | 850,287    | 465,783    |
| Current portion of long-term debt                     | 1,259,988  | 961,942    |
|   | 18,029,480 | 9,893,287  |
| <b>Long-Term Debt</b> , less current portion (note 6) | 7,609,340  | 3,128,955  |
| <b>Deferred Income Tax</b>                            | 1,060,570  | 267,101    |
| <b>Deferred Revenue</b>                               | 632,532    | 377,861    |
| <b>Minority Interest</b> (note 7)                     | 2,630,793  | 869,279    |
|   | 29,962,715 | 14,536,483 |

## Shareholders' Equity

|   |            |            |
|---|------------|------------|
| <b>Capital Stock</b> (notes 8 and 14)   |            |            |
| Authorized —  |            |            |
| 34,504 7¾ non-cumulative preference shares,<br>redeemable at the par value of \$10 each |            |            |
| 1,985,000 common shares of no par value   |            |            |
| Issued and fully paid —   |            |            |
| 1,476,045 common shares (1973 — 1,358,991)  | 11,524,154 | 9,598,288  |
| <b>Excess of Appraised Value of Fixed Assets Over<br/>Depreciated Cost</b> (note 9)     | 518,642    | 537,366    |
|   | 12,042,796 | 10,135,654 |
| <b>Deficit</b>  | 755,591    | 2,358,463  |
|   | 11,287,205 | 7,777,191  |
|   | 41,249,920 | 22,313,674 |



**Venturetek  
International  
Limited**  
and its subsidiary companies

**Consolidated  
Statement  
of Deficit**

for the year ended  
December 31, 1974

|  | Year<br>ended<br>December 31,<br>1974<br>\$ | Nine months<br>ended<br>December 31,<br>1973<br>\$ |
|--|---|--|
| <b>Deficit – Beginning of Period</b>   |   |  |
| As previously reported   | 2,938,533                                   | 3,159,647  |
| Prior period adjustments (note 17) –   |   |  |
| Adjustment of prior period earnings  | 318,881                                     | 259,198  |
| Reclassification of gain on amounts paid<br>by minority shareholders (note 10) | (898,951)                                   | (8,694)  |
|  | (580,070)                                   | 250,504  |
| As restated  | 2,358,463                                   | 3,410,151  |
| Net earnings for the period  | 1,584,148                                   | 1,032,964  |
| Amortization of appraisal credit (note 9)                                      | 18,724                                      | 18,724   |
| <b>Deficit – End of Period</b>   | <b>755,591</b>                              | <b>2,358,463</b>                                   |

**Auditors’  
Report  
to the  
Shareholders**

We have examined the consolidated balance sheet of Venturetek International Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to changes in accounting principles as referred to in note 10 to the financial statements with which we concur, on a basis consistent with that of the preceding period.

*Coopers & Lybrand*

Coopers & Lybrand  
Chartered Accountants  
Toronto, Canada

April 14, 1975



**Consolidated  
Statement  
of Earnings**  
for the year ended  
December 31, 1974

|  | Year<br>ended<br>December 31,<br>1974<br>\$ | Nine months<br>ended<br>December 31,<br>1973<br>\$ |
|--|---|--|
| <b>Sales</b>   | 36,646,467                                  | 18,347,433   |
| <b>Cost of Sales</b>   | 26,889,096                                  | 12,547,863   |
|  | <b>9,757,371</b>                            | <b>5,799,570</b>                                   |
| <b>Expenses</b>  |   |  |
| General and administrative   | 5,804,353                                   | 4,167,312  |
| Depreciation and amortization  | 1,142,910                                   | 1,036,786  |
| Interest on long-term debt   | 530,279                                     | 267,309  |
|  | <b>7,477,542</b>                            | <b>5,471,407</b>                                   |
| <b>Earnings from Operations Before Income Tax,<br/>Minority Interest and Share of Loss of<br/>Effectively Controlled Companies</b> | <b>2,279,829</b>                            | <b>328,163</b>                                     |
| <b>Provision for Income Taxes</b> (note 11)  | <b>1,607,669</b>                            | <b>521,347</b>                                     |
|  | <b>672,160</b>                              | <b>(193,184)</b>                                   |
| <b>Minority Interest in (Earnings) Loss</b>  | <b>(134,136)</b>                            | <b>201,680</b>                                     |
| <b>Share of Loss of<br/>Effectively Controlled Companies</b>   | <b>(23,600)</b>                             | <b>(20,800)</b>                                    |
| <b>Earnings (Loss) from Operations</b>   | <b>514,424</b> ✱                            | <b>(12,304)</b>                                    |
| <b>Other Income</b>  |   |  |
| Recovery (absorption) of losses attributable<br>to minority interest in excess of paid-up<br>capital (note 7)                      | 340,064                                     | (38,069)   |
| Gain on issue of shares of subsidiaries<br>(note 1(d))   | 292,879                                     | 890,257  |
|  | <b>632,943</b>                              | <b>852,188</b>                                     |
| <b>Net Earnings before Extraordinary Items</b>   | <b>1,147,367</b>                            | <b>839,884</b>                                     |
| <b>Extraordinary Items</b> (note 12)   | <b>436,781</b>                              | <b>193,080</b>                                     |
| <b>Net Earnings for the Period</b>   | <b>1,584,148</b>                            | <b>1,032,964</b>                                   |



**Consolidated  
Statement  
of Changes  
in Financial  
Position**

for the year ended  
December 31, 1974

|  | Year<br>ended<br>December 31,<br>1974<br>\$ | Nine months<br>ended<br>December 31,<br>(note 1)<br>1973<br>\$ |
|--|---|--|
| <b>Financial Resources Provided by</b>   |   |  |
| Earnings before extraordinary items  | 1,147,367                                   | 839,884  |
| Items not affecting working capital –<br>Depreciation and amortization                         | 1,142,910                                   | 738,084  |
| Deferred income taxes  | 1,091,680                                   | 249,201  |
| Share of losses of effectively controlled company  | 23,600                                      | 118,746  |
| Minority interest in (earnings) loss   | 134,136                                     | (44,583)   |
| Losses absorbed (recovered) attributable to<br>minority interest in excess of paid-up capital  | (340,064)                                   | 38,069   |
| Provided from operations   | 3,199,629                                   | 1,939,401  |
| Issue of common shares   | 1,250,000                                   | 963,160  |
| Increase in long-term debt   | 4,480,385                                   | 952,581  |
| Minority interest in assets of subsidiaries  | 1,967,442                                   | 468,380  |
| Reduction of income tax on application<br>of losses of prior years                             | 453,950                                     | –  |
| Other  | 645,615                                     | –  |
|  | 11,997,021                                  | 4,323,522  |
| <b>Financial Resources used for</b>  |   |  |
| Purchase of fixed assets   | 3,393,270                                   | 1,907,460  |
| Excess of cost of shares of subsidiaries over<br>underlying book value at dates of acquisition | 3,442,131                                   | 1,090,293  |
| Investment in and advance to other companies   | –   | 458,260  |
| Deferred costs   | 3,560,975                                   | 405,328  |
| Purchases of other assets  | 558,994                                     | 760,993  |
| Other  | –   | 448,476  |
|  | 10,955,370                                  | 5,070,810  |
| <b>Increase (Decrease) in Working Capital</b>  | <b>1,041,651</b>                            | <b>(747,288)</b>   |
| <b>Working Capital – Beginning of Period</b>   | <b>1,383,199</b>                            | <b>2,130,487</b>   |
| <b>Working Capital – End of Period</b>   | <b>2,424,850</b>                            | <b>1,383,199</b>   |



**Venturetek  
International  
Limited**  
and its subsidiary companies

**Notes to  
Consolidated  
Financial  
Statements**

for the year ended  
December 31, 1974

**1. Significant Accounting Policies**

**(a) Principles of consolidation**

These financial statements include the results of operations of Venturetek International Limited and its subsidiaries for the year ended December 31, 1974 with the exception of PoP Shoppes International Inc. which is included for the eleven months ended December 31, 1974.

The purchase method of accounting for business acquisitions has been followed in the preparation of the consolidated financial statements, which include the assets and liabilities of all subsidiaries. Earnings of each subsidiary company have been included in the consolidated statement of earnings from the effective date of acquisition.

| Subsidiaries                    | Ownership at<br>December 31, |           |
|---------------------------------|------------------------------|-----------|
|                                 | 1974<br>%                    | 1973<br>% |
| Conat Industries Limited        | 77.8                         | 60.0      |
| Fueltek Inc.                    | 75.0                         | 75.0      |
| Gestalt International Limited   | 50.7                         | 27.0      |
| Hermes Electronics Limited      | 73.0                         | 67.0      |
| McLarty Holdings Limited        | 100.0                        | 60.0      |
| PoP Shoppes International Inc.  | 70.5                         | 77.0      |
| Ventek Computer Systems Limited | 90.1                         | 99.5      |

**(b) Accounting for the acquisition of Gestalt International Limited**

During the year the company increased its ownership in common shares of Gestalt International Limited (Gestalt) to 50.7%. Accordingly, the accounts of Gestalt have been consolidated with those of the company and the results of operations of Gestalt have been included on a consolidated basis for the year ended December 31, 1974. The 1973 statements of earnings and deficit which formerly included Gestalt on an equity basis have been reclassified to present a more meaningful comparison with the 1974 results.

The calculation of the excess of cost of Gestalt shares over the underlying assets acquired during the period from March 31, 1971 to November 20, 1974 (the date on which the company's ownership exceeded 50%) is as follows:

|  | \$        |
|--|-----------|
| Tangible assets acquired                                 | 5,433,000 |
| Liabilities acquired                                     | 5,568,000 |
|  | (135,000) |
| Minority interest  | (862,930) |
| Net assets (liabilities) acquired                        | (997,930) |
| Excess of cost over underlying assets acquired           | 3,069,487 |
|  | 2,071,557 |
| Consideration given:                                     |           |
| 49,554 no par value common shares<br>valued at \$16 each | 792,864   |
| Cash   | 1,278,693 |
|  | 2,071,557 |

**(c) Accounting for investments**

**(i) Effectively controlled companies**

The company's subsidiary, Gestalt International Limited, accounts for its investment of \$270,470 in joint ventures on the equity basis.

**(ii) Others – at cost**

The company and certain subsidiaries have made investments and advances in the amount of \$1,328,280 to companies in which their ownership is less than 50%.

**(d) Gain on issue of shares by subsidiaries**

Certain subsidiaries have issued shares to interests outside the consolidated group. The effect of the change in Venturetek's interests as a result of these share issues is shown as other income for the period.

As explained in note 10, such amounts were disclosed in 1973 as contributed surplus and in 1974 as income. The confusion resulting from these changes in recommended accounting presentation is regrettable. Management does not agree with the current recommendations of the Canadian Institute of Chartered Accountants that such amounts be reported as income.

**(e) Foreign currency conversion**

The accounts of Ventek Limited, a 95% owned United Kingdom subsidiary of Ventek Computer Systems Limited, have been converted as follows:

|  |                         |
|--|-------------------------|
| Current items                                | Year end rate           |
| Other items and depreciation                 | Historical rate         |
| Earnings for period<br>(except depreciation) | Average rate for period |

Losses resulting from such conversion practices and from foreign exchange transactions are reflected in the consolidated statement of earnings in the amount of \$60,644 (1973 – \$16,974).



(f) The excess of cost of subsidiary company shares over underlying book values at dates of acquisition prior to April 1, 1974 (\$4,224,645) will not be amortized unless its value becomes impaired. The excess of cost of subsidiary company shares over underlying book values at dates of acquisition subsequent to April 1, 1974 (\$3,175,385) will be amortized over a 40 year period.

Management is of the opinion that the value of these investments will increase rather than decrease over time, and is accordingly opposed to the practice of amortization. Amortization of \$78,387 has, however, been included as an expense for the year in accordance with generally accepted accounting principles.

(g) Deferred development costs

The costs of developing new products are capitalized in the years incurred. These costs are normally amortized following the completion of the product in accordance with the table in note 4. At such time as management determines that a new product will not generate earnings sufficient to absorb the amortization of deferred costs, the applicable development costs are written off.

## 2. Inventories

The companies' inventories comprise the following:

|  | 1974<br>\$ | 1973<br>\$ |
|--|------------|------------|
| Raw materials – at cost                                    | 1,397,705  | 199,573    |
| Finished goods – at lower of cost and net realizable value | 3,577,182  | 2,131,150  |
| Contracts in progress – at percentage of completion        | 1,262,989  | 1,145,368  |
| Containers – at cost, less allowance for breakage and loss | 4,864,317  | 2,877,002  |
|  | 11,102,193 | 6,353,093  |

## 3. Fixed Assets

The companies' fixed assets comprise the following:

|                        | Cost or<br>appraised<br>value<br>(note 9)<br>\$ | Accumulated<br>depreciation<br>\$ | Net<br>\$ | 1973<br>\$ |
|------------------------|---|-----------------------------------|-----------|------------|
| Land                   | 482,583   | –                                 | 482,583   | 450,788    |
| Buildings              | 2,421,828                                       | 252,908                           | 2,168,920 | 1,714,950  |
| Production equipment   | 4,661,383                                       | 1,207,670                         | 3,453,713 | 1,210,322  |
| Furniture and fixtures | 116,774   | 64,984                            | 51,790    | 103,173    |
|                        | 7,682,568                                       | 1,525,562                         | 6,157,006 | 3,479,233  |

Depreciation expense during the period amounted to \$566,147 (1973 – \$316,114).

## 4. Other Assets

The companies' other assets comprise the following:

|   | 1974<br>\$ | 1973<br>\$ |
|---|------------|------------|
| Notes and advances receivable   | 385,625    | 301,746    |
| Deferred development costs  | 3,934,702  | 915,202    |
| Patents and trademarks – at cost, less accumulated amortization of \$6,108 (1973 – Nil) | 135,732    | 92,633     |
| Licence fees receivable   | –          | 152,200    |
| Due from stock purchase plan trustees (note 14)   | 1,183,475  | 743,158    |
|   | 5,639,534  | 2,204,939  |

The deferred development costs included above will be amortized as follows:

|   | 1974<br>\$ | 1973<br>\$ |
|---|------------|------------|
| Over the estimated period during which revenues are expected to arise from related products | 661,746    | 318,599    |
| Straight line over 5 years  | 1,862,336  | 355,853    |
| Straight line over 3 years  | 1,410,620  | 240,750    |
|   | 3,934,702  | 915,202    |

Amortization expense of patents and trademarks during the year amounted to \$6,108 (1973 – Nil).

Amortization expense of the deferred development cost during the period amounted to \$492,268 (1973 – \$720,672).

## 5. Bank Indebtedness

The companies' bank indebtedness is secured as follows:

|  | \$        |
|--|-----------|
| Assignment of book debts and inventory of subsidiaries in addition to floating charge debentures on the assets of subsidiaries | 5,293,615 |
| 950,748 PoP Shoppes preference shares with par value of \$1 per share  | 600,000   |
| Unsecured  | 341,438   |
|  | 6,235,053 |

Of the above \$5,185,934 is due to banks which are shareholders.



## 6. Long-Term Debt

The companies' long-term debt comprises the following:

|   | 1974<br>\$ | 1973<br>\$ |
|---|------------|------------|
| <b>(i) Loans</b>  |            |            |
| Secured bank loans payable to 1983 at prime bank rate plus 1½ %-3%              | 963,100    | 64,000     |
| Other bank loans  | 613,550    | 200,000    |
|   | 1,576,650  | 264,000    |
| P.A.I.T. loan at 5½ % payable annually at 1.5% of gross revenue of a subsidiary | 281,067    | —          |
|   | 1,857,717  | 264,000    |

Of the secured bank loans, \$915,600 is a term bank loan secured by a first, fixed and floating charge on the assets of a subsidiary, and an assignment of accounts receivable. The balance of the secured bank loans and \$298,550 of other bank loans is secured by a general assignment of book debts and inventories of certain subsidiaries.

### (ii) Notes Payable

|   |           |         |
|---|-----------|---------|
| 6%-9% notes payable maturing up to 1984 | 1,193,474 | 293,573 |
|---|-----------|---------|

Of the notes payable, \$684,522 are at 7% maturing annually to 1981 and secured by a second floating charge on all assets of a subsidiary. The balance is unsecured and \$66,452 of \$366,452 due to shareholders has no fixed maturity. \$100,000 of 6% notes are convertible.

### (iii) Debentures

|  |           |           |
|--|-----------|-----------|
| 7½ % to 14½ % secured debentures due 1975-1985 | 4,707,376 | 1,393,411 |
|--|-----------|-----------|

| Long-Term Debt (cont.) | 1974<br>\$ | 1973<br>\$ |
|------------------------|------------|------------|
|------------------------|------------|------------|

Of the above debentures, \$2,000,000 is secured by a first fixed and specific mortgage on all the shares of a subsidiary, a fixed and floating charge on the subsidiary's property and assets and is due monthly to February 1980. \$460,000 is convertible and redeemable and secured by a second floating charge on the assets of a subsidiary; \$494,500 is secured by a first mortgage on the land and buildings and also by a floating charge on the undertaking, property and assets of certain subsidiaries.

### (iv) Mortgages

|                                  |         |         |
|----------------------------------|---------|---------|
| 9¼ %-13% mortgages due 1975-1981 | 609,644 | 567,180 |
|----------------------------------|---------|---------|

The mortgages are secured by a first mortgage on the land and buildings and by a floating charge on the undertaking, property and assets of certain subsidiaries.

### (v) Other Debt

|  |         |           |
|--|---------|-----------|
| Advances – unsecured   | 501,117 | 200,514   |
| Promissory note and miscellaneous amounts repaid during the year | —       | 1,372,219 |
|  | 501,117 | 1,572,733 |

|                             |                  |           |
|-----------------------------|------------------|-----------|
| <b>Total Long-Term Debt</b> | <b>8,869,328</b> | 4,090,897 |
| Less: Current portion       | 1,259,988        | 961,942   |
|                             | 7,609,340        | 3,128,955 |

(vi) The long-term debt is repayable as follows:

|                     | \$        |
|---------------------|-----------|
| 1976                | 1,969,824 |
| 1977                | 1,530,289 |
| 1978                | 1,478,039 |
| 1979                | 1,179,789 |
| 1980 and subsequent | 1,451,399 |
|                     | 7,609,340 |



## 7. Minority Interest

(a) Minority interest ascribes to:

|                         | 1974<br>\$       | 1973<br>\$ |
|-------------------------|------------------|------------|
| Preference shareholders | 807,031          | 283,000    |
| Common shareholders     | 1,823,762        | 586,279    |
|                         | <b>2,630,793</b> | 869,279    |

(b) Losses attributable to minority interest in excess of paid-up capital

Prior year's losses attributable to minority interest in excess of their portion of paid-up capital in the amount of \$696,042 have been absorbed as an expense by the company in prior years. In 1974, \$340,064 of such losses were recovered as a result of profitable operations of subsidiaries. The balance of \$355,978 will be recovered in future years from continued profitable operations of these subsidiaries.

## 8. Capital Stock

(a) Share capital –

Common shares issued during the year were as follows:

|   | Number of<br>shares | Consideration<br>\$ |
|---|---------------------|---------------------|
| Shares for cash                                 | 78,125              | 1,250,000           |
| Shares issued to acquire shares of subsidiaries | 53,929              | 862,864             |
| Shares cancelled under stock purchase plan      | (15,000)            | (171,498)           |
| Warrants cancelled in settlement of debt        | –                   | (15,500)            |
|   | <b>117,054</b>      | <b>1,925,866</b>    |

(b) Warrants and option

There are 109,000 warrants outstanding, each of which entitles the holder to purchase one common share of the company as follows:

- (i) 29,500 shares at \$7.00 per share exercisable to October 22, 1976. The proceeds from sale of these warrants have been credited to paid-in capital.
- (ii) 77,500 shares at \$5.00 per share exercisable to December 31, 1975.
- (iii) 2,000 shares at \$9.00 per share exercisable to December 31, 1975.

There is also an option outstanding exercisable to July 24, 1975 which entitles the holder to purchase 78,125 common shares for \$1,250,000.

## 9. Excess of Appraised Value of Fixed Assets Over Depreciated Cost

Values determined by an appraisal of land and buildings at a subsidiary company's Dartmouth electronics plant on April 12, 1973 by DeWolf Real Estate were \$556,090 in excess of their book value of \$484,346. The credit arising on appraisal is being transferred to retained earnings as it is effectively realized through depreciation charges to operations at the rate of \$18,724 annually.

## 10. Contributed Surplus

In 1973 the Canadian Institute of Chartered Accountants recommended that amounts paid by the minority shareholders for treasury shares of subsidiaries in excess of the underlying net book value of assets acquired be treated as contributed surplus. In 1974 the recommendation was altered with the result that such amounts are now reflected as income as reported in note 1(d). The following is a tabulation of the effect of this change in these financial statements:

|   | 1974<br>\$     | 1973<br>\$ |
|---|----------------|------------|
| Contributed surplus – beginning of year | 845,505        | 3,571      |
| Adjustment of prior period              | 53,446         | 5,123      |
|   | <b>898,951</b> | 8,694      |

Amount reclassified to earnings as a result of the recent recommendations of the Canadian Institute of Chartered Accountants (note 1)

|   |         |       |
|---|---------|-------|
|   | 898,951 | 8,694 |
| Contributed surplus as restated – end of year | –       | –     |

## 11. Provision for Income Tax

Taxes on income are provided as follows:

|  | 1974<br>\$       | 1973<br>\$ |
|--|------------------|------------|
| Current  | 62,039           | 16,730     |
| Deferred   | 1,091,680        | 423,617    |
| Provided and recovered as extraordinary income (note 12) on application of losses of prior years | 453,950          | 81,000     |
|  | <b>1,607,669</b> | 521,347    |



## 12. Extraordinary Items

|   | 1974<br>\$  | 1973<br>\$ |
|---|-------------|------------|
| Reduction of income taxes on application of losses of prior years | 453,950 ✓   | 81,000     |
| Gain on sale of patents and trademarks (net)                      | - ✓         | 61,300     |
| Gain on sale of investments                                       | 38,472 ✓    | 50,780     |
| Gain on disposal of portion of equity in partnership              | 93,709 ✓    | -          |
| Loss on abandonment of a subsidiary's operations                  | (149,350) ✓ | -          |
|   | 436,781     | 193,080    |

## 13. Executive Remuneration

During the period, remuneration of the company's directors and senior officers as defined by the Business Corporations Act amounted to \$146,013 (1973 - \$107,500). The remuneration paid to directors as directors amounted to \$23,250 (1973 - Nil).

## 14. Due from Shareholders Under Stock Purchase Plans

The company and its subsidiaries have stock purchase plans for their senior officers, certain of whom are shareholders and directors of the company.

Under these plans \$1,183,475 has been advanced by way of loans without interest to trustees to enable them to purchase on behalf of members of the plans common shares at a price determined to be the fair market value on the dates of acquisition. The purchase price to each member is the purchase price to the trustee. The obligation of the members to pay such price is evidenced by demand promissory notes which are being repaid in instalments. The shares are held by the trustees as security for the loans.

## 15. Commitments and Contingent Liabilities at December 31, 1974

(a) The company has annual gross rental commitments of \$383,000 through 1979.

(b) Government assistance has been received and may be repayable under certain general and certain specific conditions. Grants received relating to development of specific projects require repayment upon failure to advance diligently those projects for marketing.

## 16. Events Subsequent to December 31, 1974

(a) Subsequent to the year-end, 25,000 share warrants were exercised at \$5.00 per common share.

(b) The company increased its ownership in Fueltek Inc. to 100% on the purchase of 16,667 common shares for \$2,000 and changed its name to McPhar Instrument Corporation.

## 17. Prior Period Adjustments

During the year, as a result of a change in accounting principles (note 10) and corrections of prior period earnings, the balance of deficit as at December 31, 1973, previously reported as \$2,938,533, has been restated retroactively by \$580,070 (net) to \$2,358,463. Of this amount, \$830,574 is applicable to the nine months ended December 31, 1973 and has been credited to earnings for that period. A reduction of \$250,504 is applicable to the year ended March 31, 1973 and has been charged to the deficit balance at that date previously reported as \$3,159,647.

## 18. Tax Losses

The company and certain of its subsidiaries have tax benefits resulting from business losses which have not been recognized in the financial statements which expire as follows:

|                     | \$          |
|---------------------|-------------|
| 1975                | 812,000     |
| 1976                | 1,254,000   |
| 1977                | 1,677,000   |
| 1978                | 394,000     |
| 1979 and subsequent | 1,302,000   |
|                     | 5,439,000 ✓ |

There are accumulated timing differences of \$3,115,000 arising to date as a result of claiming for book purposes, certain expenses, in excess of amounts claimed for tax purposes.

## 19. Comparative Figures

Certain of the 1973 figures have been reclassified in order to conform with the current year presentation.



## Company Listings

### **Venturetek International Limited**

47 Colborne Street  
Suite 404  
Toronto, Ontario M5E 1E3  
Telephone: (416) 364-9205  
Telex: 06-22885  
President: J. N. Kendall

### **Conat Industries Limited**

(Envirotron Sales Limited)  
40 Meteor Drive  
Rexdale, Ontario M9W 1A4  
Telephone: (416) 677-0864  
President: C. A. Ing

### **Gestalt International Limited**

58 West 6th Avenue  
Vancouver, B.C. V5Y 1K1  
Telephone: (604) 872-0111  
Telex: 04-55309  
President: J. S. Farrell

### **Northway Survey Corporation Limited**

1450 O'Connor Drive  
Toronto, Ontario M4B 2V2  
Telephone: (416) 755-1141  
Telex: 06-963518  
President: W. A. Dymond

### **Cross Canada Flights Limited**

Hunt Club Road  
Box 469-R.R. 5  
Ottawa, Ontario K1G 3N3  
Telephone: (613) 521-2666  
Telex: 05-33344  
President: J. S. Farrell

### **Machair Surveys Ltd.**

7070 Farrell Road SE  
Calgary, Alberta T2H 0T2  
Telephone: (403) 252-3346  
Telex: 03-821574  
President: John McMurphy

### **Survair Limited**

Hunt Club Road  
Box 469-R.R. 5  
Ottawa, Ontario K1G 3N3  
Telephone: (613) 521-3673  
Telex: 05-33344  
President: T. E. Rowlands

### **Hermes Electronics Limited**

(Advanced Transducer Systems Limited)  
(Devtek Limited)  
P.O. Box 1005-Esson Road  
Dartmouth, Nova Scotia  
B2Y 4A1  
Telephone: (902) 466-7491  
Telex: 01-921744  
President: A. C. Cagney

### **McPhar Instrument Corporation**

139 Bond Avenue  
Don Mills, Ontario M3B 1M1  
Telephone: (416) 449-5551  
Telex: 06-966748  
President: W. A. Smith

### **Pop Shoppes International, Inc.**

146 Yorkville Avenue  
Toronto, Ontario M5R 1C3  
Telephone: (416) 967-0001  
Telex: 06-22351  
President: B. M. Westwood

### **Pop Shoppes of America Inc.**

14 Lakeside Lane  
City of Lakeside  
Denver, Colorado 80212  
Telephone: (303) 458-1000  
President: M. D. Young

### **Pop Shoppes of Canada Limited**

450 Highbury Avenue  
London, Ontario N5W 5L2  
Telephone: (519) 455-7150  
Telex: 02-47593  
President: J. G. Shaw

### **Ventek Computer Systems Limited**

47 Colborne Street  
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Telephone: (416) 364-9205  
Telex: 06-22885  
President: M. V. Holt

### **Interail Inc.**

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San Francisco, California 94111  
Telephone: (415) 989-2670  
Telex: 00-340646  
President: T. K. Strong

### **Ventek Computer Systems, Inc.**

31829 West La Tienda Drive  
Westlake Village, California 91361  
Telephone: (213) 889-4455  
Telex: 00-691220  
President: P. Van Alstyne

### **Ventek Limited**

Station House-17th Floor  
Harrow Road  
Wembley, Middlesex, England HA9 6ER  
Telephone: (01) 903-0931  
Telex: 51923038 +  
Managing Director: D. S. Marshall

*(Italic denotes subsidiaries)*

## Major Investors

The Canada Development Corporation

The Royal Bank of Canada

The National Life Assurance Company

The Manufacturers Life Insurance Company

The Excelsior Life Insurance Company

The Canada Permanent Trust Company

Canadian General Investments Limited/Third Venture Capital Company

Mitsubishi Canada Limited

The Mitsubishi Bank, Ltd.  
(New York)

The Dai-Ichi Kangyo Bank, Ltd.  
(New York)







